



## The Road to Organic Growth

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The concept of Organic Growth Index (OGI) has been coined through this research. OGI measures the performance of a company based on the contribution of core activities in the total earnings other than investments and other revenues. However, the process of mergers and acquisition is included as a part of earnings from core activities. The study aims at identifying the progression steps for organic growth.

Six tests were conducted on 1000+ companies and only twenty two companies could complete all the six tests successfully. These tests were aimed at classifying the companies based on the earnings from core activities. Test 1 identified top 300 performers for the period of three years based on the economic value added (EVA) per capital invested. Test 2 focused on Compound Annual Growth Rate (CAGR) of sales and cash flow from operations. The industry-normalized statistics for both sales and Cash Flow from Operations (CFFO) growth and average of the two was calculated. The companies with positive average (z-statistics) were qualified for the next test. Test 3 used Standard & Poor's (S&P) core earnings test. Sensitivity analysis was used in identifying the companies which have minimum of 90% of core earnings. Test 4 compared accounts receivables to sales. The growth rate of sales and the accounts receivable was evaluated, if the total amount receivable is greater than 5% of the sales, then this test was administered. Test 5 emphasized on comparison of cash flow operations with net income. Merrill Lynch's cash realization test was used in identifying the companies which reported financial net incomes that exceeded cash flow from operations, by 10% or more. Test 6 considered the market capitalization for the period of three years. Based on the increase in market capitalization, the companies were short listed. Based on these tests, twenty two companies were

identified which would be included in the organic growth index.

The research identified the organically grown companies and then tried to find the factors that helped the companies to grow that way. Few of the key interesting factors were,

- Location
- Size
- Global Presence
- Financing Organic growth
- Stake of CEOs

The research resulted in identification of six major keys for organic growth.

- **An elevator-pitch business model:** The OGI companies have simple, easy-to-understand strategy and business model.
- **Instill a "Small-Company Soul" into a "Big Company Body":** The OGI companies made the employees more responsible, accountable and were provided with necessary authority.
- **Measure Everything:** The OGI companies maintained matrices for all operations which helped in developing effective control system.
- **Build a People Pipeline:** The OGI provided better work environment which made the employees more productive.
- **Leaders:** Humble, Passionate, Focused operators
- **Be an Execution and technology champion:** Execution is the key area where all OGI companies are focused.

The information for the research was gathered from primary as well as secondary resources. As part of secondary data collection the annual reports, proxy statements, press releases, business articles, portals etc were used. Based on this information, 6 hypotheses were identified these were tested against the OGI companies using primary research methods like telephonic interviews and onsite visits, personal interviews etc.

The organic growth of any company depends on both endogenous and exogenous variables. These variables vary across all the industries. Hence the organic growth cannot be really measured by putting all the companies in one basket and examining using the tools that focus more on earnings from core activities. The organic growth can be more accurately measured based on the industry than bunch of companies. Once the strategies for industry specific organic growth are identified, the common strategies which will be applicable to all the companies are identified.

The hypotheses tested in this research, focus more on endogenous variables like work environment, leadership, business model and execution. One of the important variables considered is consumer/customer satisfaction. The primary data were collected through personal and telephonic interviews of the employees of the organization. However, the voice of customer is as important as internal factors.

The result of the research is really applaudable since it has explored the strategies of the companies which were able to achieve organic growth. These strategies resulted in the consistent growth. On the whole, this research is an excellent work on measuring the performance of the organization based on core activities.